



Session 21

Direct Loan Policy Update



Direct Loan Policy Update

- Loan Proration Changes
- MPN
 - Canceling
 - Confirmation
 - Disbursing increased loan amounts
- Negotiated Rulemaking -- 2000

Loan Proration Changes

- No change to when proration is required:
 - Program is < full AY</p>
 - Program is ≥ full AY, but remaining period of study is < full AY



Loan Proration Changes

Reauthorization eliminated fixed proration

Before:

- Fixed proration
 - Loan for program < full AY
 - 2nd-year "additional" unsub loan for remaining period < full AY
- Proportional proration
 - All other cases

- Fixed proration eliminated
- Proportional proration used in all cases



Program < Full AY

Determine smaller fraction:

Hrs in Program
OR
Weeks in Program
Weeks in AY

Step 2

Multiply 1st-year loan limit by smaller fraction:

\$2,625 x Smaller Fraction = Prorated Loan Limit



Before:

- Compared fractions
 - Hrs in Program / Hrs in AY
 - Wks in Program / Wks in AY
- Used smaller fraction to find fixed prorated limit on chart

- Compare same fractions
- Use smaller fraction to determine proportional prorated limit



* Program < Full AY: Scenario A

Program = 400 clock hours / 12 weeks

AY = 900 clock hours / 30 weeks



Determine smaller fraction:

$$\frac{400}{900}$$
 (= .44) OR $\frac{12}{30}$ (= .40)



Multiply 1st-year loan limit by smaller fraction:

$$$2,625 \times .40 = $1,050$$



Before:

- Compared fractions
 - -400/900 (= .44)
 - -12/30 (= .40)
- Used smaller fraction to determine that program was < 2/3 and ≥ 1/3 of full AY
- Student eligible for fixed prorated limit: \$875

- Compare same fractions
- Multiply 1st-year loan limit by smaller fraction
- Student eligible for higher proportional prorated limit: \$1,050



* Program < Full AY: Scenario B

Program = 600 clock hours / 20 weeks

AY = 900 clock hours / 30 weeks



Determine smaller fraction:

$$\frac{600}{900}$$
 (= .67) *OR* $\frac{20}{30}$ (= .67)



Fractions are the same; multiply 1st-year loan limit by fraction:

$$$2,625 \times .67 = $1,758.75$$



Before:

- Compared fractions
 - -600/900 (= .67)
 - -20/30 (= .67)
- Fractions are equal
- Used fraction to determine that program was < 1 and > 2/3 of full AY
- Student eligible for fixed prorated limit: \$1,750

- Compare same fractions
- Multiply 1st-year loan limit by fraction
- Student eligible for slightly higher proportional prorated limit: \$1,758.75





\$4,000 x

Hrs in Remaining Period
Hrs in AY

ProratedLoan Limit



Remaining Period < Full AY:

*2nd-Year "Additional" Unsub

Before:

- Compared fractions
 - Hrs in Remaining Pd / Hrs in AY
 - Wks in Remaining Pd / Wks in AY
- Used smaller fraction to find fixed prorated "additional" unsub limit on chart

- Use only hours fraction
 - Multiply 2ndyear "additional"
 unsub limit by
 hours fraction to
 determine
 proportional
 prorated limit

Remaining Period < Full AY: 2nd Year "Additional" Unsub

Remaining period = 6 credit hours / 15 weeks

★ AY = 24 credit hours / 30 weeks

$$$3,500 \times \frac{6}{24} (= .25) = $875$$

$$\$4,000 \times \frac{6}{24} (= .25) = \$1,000$$



Remaining Period < Full AY: 2nd Year "Additional" Unsub

Proportional proration for "base"

- Fixed proration for "additional"
 - Compared hours (6/24 = .25)and weeks (15/30 = .50)fractions
 - Used smaller (.25) to determine remaining period was < 1/3 of full AY
 - Fixed "additional" limit: \$0

- No change for "base"
- Proportional proration for "additional"
 - Multiply "additional" loan limit by hours fraction
 - Proportional prorated "additional" limit: \$1,000



- Borrower ---
 - Must cancel in writing
 - May provide written notification to ED or school
- If borrower cancels ---
 - Remaining disbursements on existing loans accepted
 - Additional loans require new MPN



- General ---
 - School should use same process for all students
- In some cases --
 - Administrative procedures and/or school's best judgement on informing students of loan obligation may require more than one process



Example:

- School requires undergraduates to attend individual counseling before receiving aid
- Graduate students not required to attend counseling
- School may have two confirmation processes --
 - Individual counseling for undergraduates
 - Another means for graduate students

MPN: Documenting Confirmation Processes

School must retain documentation of process/processes in effect for each year in which it makes 2nd/subsequent loans under MPNs



Include description in student handbook or other financial aid publication each AY



Documentation ---

- May be kept in paper or electronic format
- Need not be kept in individual borrower files
- Must be kept indefinitely
- Must be submitted to ED upon request if borrower challenges loan enforceability

MPN: Disbursing Increased Loan Amount

- School may adjust original loan amount
- upward during AY due to change in ---
 - Financial need
 - Grade level
 - Loan period
 - Dependency status
 - Enrollment status
 - Loan amount requested
 - No change in disbursement rules

MPN: Disbursing Increased Loan Amount

Example 1

- Original loan amount = \$3,500 for fall-spring
 - Spring term, student progresses from grade level 2 to grade level 3
 - Additional \$2,000 eligibility for spring only
 - Disburse additional amount in two equal installments:
 - Increase 2nd disbursement by \$1,000
 - New 3rd disbursement for \$1,000 at spring term
 midpoint

MPN: Disbursing Increased Loan Amount

Example 2

- Original loan amount = \$4,500 for fall-spring
 - Student eligible for \$5,500, but wants lesser amount
 - At beginning of spring term (before 2nd disbursement), student requests additional \$1,000
 - Disburse additional amount in one installment:
 - Increase 2nd disbursement by \$1,000

MPN: Disbursing Increased Loan Amount

Example 3

- Original loan amount = \$4,000 for fall-winter-spring
 - During fall term (after 1st disbursement), student's eligibility increases by \$1,200
 - Disburse \$1,200 in three installments:
 - New disbursement in fall term for \$400
 - May not adjust 1st disbursement upward
 - Adjust remaining two disbursements upward by \$400 each

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MPN: Disbursing Increased Loan Amount Example 4

- Original loan for fall-only
 - At beginning of spring term (after fall proceeds fully disbursed), student changes plans and enrolls for spring
 - Change loan period from fall-only to fallspring
 - Disburse remaining eligibility for spring in a single installment



Negotiated Rulemaking: 2000

Schedule:

- February May
 - Committees meet
- July
 - NPRMs published
- November 1
 - Final regulations published

Committees:

- Loan issues
- Program and eligibility issues



Negotiated Rulemaking: 2000

Direct Loan / FFEL issues:

- Cohort Default Rates
- Death & Disability Discharges
- Teacher Loan Forgiveness
- False Certification Discharges



Question and Answer Handout

- Q&As from Direct Loan Policy Update session at March 1999 conference
- New information

Policy Questions?

Direct Loan Regional Account Managers

SFA Customer Support Branch:

1-800-433-7327 (phone)

202-260-4199 (fax)

osfap_csb@ed.gov